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TAGS: [EFIN](#) [PGOV](#) [PREL](#) [IDB](#) [ES](#)
SUBJECT: NATIONAL ASSEMBLY APPROVES IDB LOAN

REF: A. SAN SALVADOR 1364 (NOTAL)
[1](#)B. SAN SALVADOR 1340

[1](#)1. (SBU) SUMMARY. El Salvador's National Assembly approved on December 18 a \$500 million Inter-American Development Bank (IDB) loan, the country's first new international debt since the March 2006 legislative elections. Separately, the IDB approved a \$400 million credit line to the Central Bank, though details on how it will be used are still under negotiation. The approval of the IDB loan provides vital funds that should help address El Salvador's short-term debt problems. END SUMMARY.

[1](#)2. (SBU) On December 18, in its last session of the year, the National Legislative Assembly voted to ratify a \$500 million loan package from the Inter-American Development Bank (IDB), with \$200 million marked to pay off 2011 Eurobond debt and \$300 million to fund new social spending. The loans passed with 79 out of 84 votes, exceeding the 2/3 majority (56 votes) required for new international debt. The government must still publish the Assembly's ratification in the official register before the IDB can disburse funds. Local IDB Country Representative Maria Carmenza McLean confirmed to Econcouns on December 15 that the IDB will keep its books open past its planned December 18 closing date to allow the first \$200 million tranche, targeted for 2011 Eurobond debt, to be disbursed in 2008.

[1](#)3. (U) According to press reports, the \$300 million in social spending includes: \$100 million for hospital projects, \$60 million for agricultural programs (primarily promoting the production of basic grains), \$40 million for rural roads, \$30 million for potable water projects, \$30 million for rural schools, \$20 million for the University of El Salvador, and \$20 million for other public works. The funds will be spent over a three-year period, \$101.7M in 2009, \$121.1M in 2010, and \$77.2M in 2011.

[1](#)4. (SBU) Separately, the IDB approved a credit line from its new liquidity facility to the Central Bank of up to \$400 million, reduced from an original \$500 million proposal. Roger Alfaro, Director for Investment and Development Banking at the state-owned Multi-Sector Investment Bank (BMI), told Econoff on December 17 that the GOES might only receive \$300 of the \$400 million, because the IDB's underwriters had not funded the facility as much as expected and many more countries were now asking for funds. While the Central Bank hoped to have BMI manage the credit line, Alfaro said that lawyers on both sides were still negotiating on how the credit line would be administered and the funds could be used. El Salvador was one of the first countries to pursue a credit line and was in many ways a "test case."

[1](#)5. (SBU) COMMENT: This loan package, the country's first new international debt since the March 2006 legislative elections, was vital both for the funds, which should help

with El Salvador's short-term debt problems (septel), and for El Salvador's image with the international financial institutions, which had been skeptical after the Assembly failed to ratify previous loan packages. Several economists have commented (reftel B) that the current loan package came at a time when both political parties still think they're going to win the 2009 elections. After the elections, however, the losing party may be tempted to adopt the obstructionist tactics the FMLN had employed for the past two years. END COMMENT.
GLAZER